

Company Result

30 September 2014

Hai-O Enterprise Berhad

HOLD

1QFY15: A slow start to the year

Maintained

Share Price	RM2.69
Target Price	RM2.43

Result

Company Description

Hai-O Enterprise Berhad is offering a wide range of Chinese medicines, medicated tonic, wellness, beauty and healthcare.

- **Hai-O's 1QFY2015 net earnings reported at RM6.22mil**, slumped 29.22% yoy and 41.90% qoq. Meanwhile, revenue recorded at RM49.78mill, declined by 8.96% yoy and 19.01% qoq.
- **1QFY2015 net earnings came below expectations**, only reaching 14.36% and 13.85% of our full year forecast and consensus estimates.

Stock Data

Bursa / Bloomberg code	7668 / HAI0 MK
Board / Sector	Industrial / Food & Drug Retailers
Syariah Compliant status	No
Issued shares (m)	195.50
Par Value (RM)	0.50
Market cap. (RMm)	514.17
52-week price Range	RM2.36– 2.84
Beta (against KLCI)	0.95
3-m Average Daily Volume	0.09m
3-m Average Daily Value [^]	RM0.11m

Comment

Share Performance

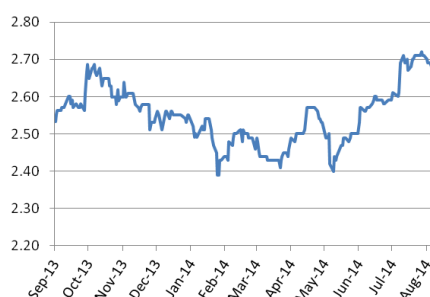
	1m	3m	12m
Absolute (%)	-2.6	2.7	0.8
Relative (%-pts)	-1.4	6.8	-3.8

- **Affected by lower MLM contribution of "big ticket" items** – On yoy comparison, MLM division recorded a decline in revenue and PBT by 15.2% and 12.43% to RM28.41mill and RM4.64mill respectively. The slower sales were due to lower contribution from "big tickets" items. However, the group's "small tickets" items sales managed to partly salvage or cushion the drop in sales of "big ticket" items. Besides, the higher A&P expenditures also resulted in a lower PBT for this division.
- **Continued disappointment from wholesale division** – Similarly, as compared to a year ago, the revenue and PBT from wholesales division dropped 13.81% and 55.98% to RM25.28mil and RM2.11mill respectively. The disheartening performance from this division was weighed down by: 1) lower inter-segment sales to MLM division; 2) profit margin erosion due to unfavorable exchange rate as Ringgit weakening against US Dollar.
- **Marginal pick up in retail division** – The revenue from retail division inched up marginally by 4.11% yoy mainly due to contribution from the sales promotion despite still posted narrowing losses in PBT. However, on quarterly basis, the revenue dropped by 16.11% due to seasonal effect as the year-end members' sales promotion held in the fourth quarter of the previous financial year.
- **No dividend was declared for the quarter.** Based on previous dividend payout track record of c. 50%, we are expecting total dividend payout of 10 sen per share for FY2015F to be declared in last quarter. This translates into dividend yield of 3.8% based on current closing price of RM2.69. Having said that, the group may raise its dividend payout to 100% in conjunction with its 40th year anniversary.

Major Shareholders

Major Shareholders	%
KAI HEE TAN	10.0
AKINTAN SDN BHD	7.7
SLOW ENG TAN	6.9

Historical Chart



Source: Bloomberg

Earnings Outlook/Revision

Team Coverage

03-87361118, ext. 752

research.dept@jfafpex.com.my

- **We trimmed our FY2015F net earnings forecast by 8.5% to RM39.60mil from RM43.3mill.**

Valuation & Recommendation

- **Maintain HOLD call on Hai-O with a lower target price of RM2.43 (Previous: RM2.55).** We pegged our revised target price at 12x FY2015F PE based on EPS of 20 sen. We maintain our neutral stance on the group's prospects as we currently do not foresee any immediate catalyst to drive the stock price.
- **Challenging outlook ahead.** While we reckon that the group is in right business direction for its MLM strategy of focusing on 'small ticket' or 'repetitive-consumer' items to boost future sales, we foresee the group's strategy may take longer time to yield desirable results to cushion the current declining sales in its 'big ticket' item.
- Furthermore, consumers may spend cautiously in future in anticipation of higher cost of living upon GST implementation next year. We envisage the situation will continue to weigh on the group's retail and wholesale divisions.

Figure 1: Quarterly Figures

Year to 31 July	1QFY15 (RMm)	4QFY14 (RMm)	1QFY14 (RMm)	QoQ % chg	YoY % chg
Revenue	49.78	61.47	54.68	-19.01%	-8.96%
Operating Profit	8.20	12.10	11.56	-32.20%	-29.08%
Pre-tax Profit	8.41	12.53	11.80	-32.87%	-28.71%
Profit After Tax	6.22	10.81	8.73	-42.48%	-28.74%
Net Profit	6.22	10.71	8.79	-41.90%	-29.22%
Operating Margin (%)	16.47%	19.68%	21.15%	-3.20ppt	-4.67ppt
Profit Before Tax Margin (%)	16.89%	20.38%	21.57%	-3.49ppt	-4.68ppt
Profit After Tax Margin (%)	12.49%	17.59%	15.96%	-5.10ppt	-3.47ppt
Nat Profit Margin (%)	12.50%	17.42%	16.08%	-4.92ppt	-3.58ppt

Figure 2: Revenue and PBT by divisions

Year to 31 July	1QFY15 (RMm)	4QFY14 (RMm)	1QFY14 (RMm)	QoQ % chg	YoY % chg
Segment Revenue					
MLM	28.41	37.76	33.50	-24.76%	-15.20%
Wholesales	25.28	33.73	29.33	-25.05%	-13.81%
Retail	7.70	9.18	7.40	-16.11%	4.11%
Total Revenue	61.39	80.67	70.23	-23.89%	-12.59%
Segment Profit Before Tax					
MLM	4.64	8.36	5.30	-44.49%	-12.43%
Wholesales	2.11	1.26	4.80	67.83%	-55.98%
Retail	-0.02	0.58	-0.20	-102.75%	-92.00%
Total Profit Before Tax	6.74	10.20	9.90	-33.95%	-31.94%
Segment PBT margin					
MLM	16.34%	22.15%	15.82%	-5.81ppt	0.52ppt
Wholesales	7.44%	3.73%	16.37%	3.71ppt	-8.93ppt
Retail	-0.06%	6.33%	-2.70%	-6.39ppt	N/A

Figure 2: Financial Summary

Year to 30 April (Rm'm)	2011	2012	2013	2014	2015F
Revenue	223.3	239.4	267.9	253.4	250.6
Operating profit	41.3	48.7	63.4	52.0	50.6
Net profit	28.4	34.0	47.2	40.5	39.6
EPS (sen)	14.5	17.2	24.1	20.7	20.3
P/E (x)	18.5	15.6	11.2	13.0	13.3
P/BV (x)	2.5	2.4	2.4	2.1	2.0
Dividend yield (%)	3.4%	3.2%	5.4%	3.8%	3.8%
PBT margin (%)	18.5%	20.2%	23.0%	20.0%	20.3%
Net profit margin (%)	12.7%	14.2%	17.6%	16.0%	15.8%
Net Gearing (%)	-22.71%	-12.34%	-17.67%	-23.96%	-20.54%
ROE (%)	13.3%	14.6%	18.9%	16.1%	14.9%
ROA (%)	10.2%	11.9%	16.3%	15.0%	12.9%

Source: Company, JF Apex Estimates

JF APEX SECURITIES BERHAD – CONTACT LIST
JF APEX SECURITIES BHD
Head Office:

6th Floor, Menara Apex
Off Jalan Semenyih
Bukit Mewah
43000 Kajang
Selangor Darul Ehsan
Malaysia

General Line: (603) 8736 1118
Facsimile: (603) 8737 4532

PJ Office:

15th Floor, Menara Choy Fook On
No. 1B, Jalan Yong Shook Lin
46050 Petaling Jaya
Selangor Darul Ehsan
Malaysia

General Line: (603) 7620 1118
Facsimile: (603) 7620 6388

DEALING TEAM
Head Office:

Kong Ming Ming (ext 3237)
Shirley Chang (ext 3211)
Norisam Bojo (ext 3233)
Wong Wing Haur, Alvin (ext 3226)

Institutional Dealing Team:

Lim Teck Seng
Sanusi Bin Mansor (ext 740)
Fathul Rahman Buyong (ext 741)
Ahmad Mansor (ext 744)
Lum Meng Chan (ext 743)
Zairul Azman (ext 746)

PJ Office:

Mervyn Wong (ext 363)
Mohd Hanif Wan Said (ext 111)
Fong Jia Wen (ext 822)
Nursyazaleen Hazwani (ext 362)

RESEARCH TEAM
Head Office:

Lee Chung Cheng (ext 758)
Lee Cherng Wee (ext 759)
Jessica Low Jze Tieng (ext 756)
Soong Wei Siang (ext 754)
Elliya Harisna binti Junaedi (ext 752)
Norsyafina binti Mohamad Zubir (ext 755)
Teo Chee Chung (ext 753)

JF APEX SECURITIES - RESEARCH RECOMMENDATION FRAMEWORK
STOCK RECOMMENDATIONS

- BUY** : The stock's total returns* are expected to exceed 10% within the next 12 months.
- HOLD** : The stock's total returns* are expected to be within +10% to – 10% within the next 12 months.
- SELL** : The stock's total returns* are expected to be below -10% within the next 12 months.
- TRADING BUY** : The stock's total returns* are expected to exceed 10% within the next 3 months.
- TRADING SELL** : The stock's total returns* are expected to be below -10% within the next 3 months.

SECTOR RECOMMENDATIONS

- OVERWEIGHT** : The industry as defined by the analyst is expected to exceed 10% within the next 12 months.
- MARKETWEIGHT** : The industry as defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
- UNDERWEIGHT** : The industry as defined by the analyst, is expected to be below -10% within the next 12 months.

*capital gain + dividend yield

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